

# The IRS Ramps Up Audit Activity for Certain Taxpayers

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PRACTICES Tax

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On August 23rd, 2024, the IRS released a [report card](#) highlighting the improvements it has made during the second year of funding provided by the Inflation Reduction Act. Notably, the statement describes the increased focus on compliance from high-income and high-wealth individuals reporting that the efforts have resulted in collecting over \$1 billion so far. The IRS describes its efforts as “swift and aggressive.”

In addition to high-income individuals generally, the IRS is ramping up scrutiny of abusive use of partnerships, activities involving large corporations and partnerships, and aircraft use. These types of taxpayers and transactions can expect to see a substantial increase in audit activity. The IRS division focused on large companies and high net worth individuals has grown by 1,800 employees in the last year. The IRS as a whole has seen a 40% increase in employees since January 2023. Collection enforcement will also be an IRS focus in the coming years. Industry data shows the IRS has instructed its auditors to be aggressive—which often results in incorrect assessments and penalties.

To best protect your company from potential assessments and penalties as the risk of IRS audit increases, we recommend you follow these best practices:

- Ensure the company is keeping up to date governing documents and appropriate corporate records;
- Have systems in place (it is a best practice to have these systems in writing) to ensure all required information returns are timely filed each year even if the preparation and filing of these returns are handled by a third-party;
- Follow appropriate corporate formalities and keep records supporting tax positions for at least four years;
- Ensure that IRS letters are received and processed in a timely manner by the appropriate employees;
- Promptly respond to all IRS communications and immediately reach out to a tax professional if you receive an assessment or penalty letter.

Our tax controversy team has substantial experience dealing with the IRS and has had great success getting penalties abated and amounts due removed for our clients. A timely response to any IRS communication is crucial to that success, so please reach out to the Haynes Boone tax team if you receive an IRS notice with which you do not agree.